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FARMERS' NEWSLETTER
Soybeans

January 82/S-20

U.S. soybean producers harvested their second largest crop in history this season--an estimated 2.077 billion bushels.

Odds are 2 out of 3 that production will be within 55 million bushels of that forecast when USDA releases its final crop estimate on January 14. A 55-million-bushel difference could mean as much as a 10- to 20-cent change in the season average price of soybeans.

Farm prices are expected to average $5.75 to $6.75 a bushel, with cash market prices staying near the low end of this range during the early part of the marketing year. Producers got an average $7.61 a bushel last season following the short 1980 crop.

With beginning stocks of 320 million bushels, soybean supplies this season now stand at 2.4 billion bushels, 11 percent more than last season and just shy of the 1979/80 record.

Certain of a large domestic supply, let's look at some of the key factors likely to shape the demand and price outlook for the rest of the marketing year.

Exports To Rise

Early season forecasts indicate a sizable gain in foreign demand for U.S. soybeans, coupled with a moderate rise in demand for soybean products. Bean exports alone could jump to 840 million bushels, almost 110 million more than 1980's poor showing.

Why the expected rebound? The short 1980 crop brought high U.S. bean and meal prices. At the same time, stagnant world economic growth and a strengthening dollar relative to foreign currencies limited foreign demand for soybean meal.

As meal demand weakened, so did crushing margins, particularly in the EC. Faced with poor margins, the EC opted to buy soybean meal from Brazil rather than crush imported beans--a move that hurt U.S. soybean exports to the region.

This season, moderately lower bean prices have already improved crushing margins in the EC. Also, EC demand for soybean meal is picking up because meal there is cheap relative to corn, thanks to price supports that have kept corn prices from dropping as in the United States. The soybean meal/corn price ratio is likely to remain favorable to soybean use through this season.

Following its massive shipments of soybean products during March-November, Brazil has all but exhausted its exportable supplies. So competition from Brazil will be light until the new crop is harvested in March, another factor boosting U.S. exports of soybeans and products.

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The next soybeans newsletter is scheduled for early March.

SOYBEAN STOCKS COULD BE RECORD HIGH

Year beginning September 1	1979/80	1980/81	1981/82[1] Projected	1981/82[1] Prob. variab.
	Million bushels			
Beginning stocks	174	359	320	
Production	2,268	1,792	2,077	± 55
Total supply	2,442	2,151	2,397	± 55
Crushings	1,123	1,020	1,075	± 25
Exports	875	724	840	± 25
Seed, etc.	68	66	70	
Residual	17	21	17	
Total use	2,083	1,831	2,002	± 35
Ending stocks	359	320	395	± 35
	Dollars per bushel			
Farm price	6.28	7.61	5.75-6.75	
Loan rate	4.50	5.02	5.02	

[1] As of December 11, 1981. Chances are 2 out of 3 that the outcome will fall within the implied ranges.

Until then, prices for U.S. soybeans, meal, and oil will react to changes in Brazilian crop prospects, currently good at 15.2 million metric tons, only slightly below last season's record. Keep in mind that January weather is critical to the development of Brazil's soybean crop.

Brazilian export policy will be crucial too. Brazilian authorities have removed export quotas and reportedly, import duties, on soybeans, soybean meal, and soybean oil as of January 1, 1982. Although primarily a meal and oil exporter, Brazil therefore could export more beans and less products next season.

Recession Curbs Growth in Demand

The U.S. economic outlook remains gloomy. The index of leading economic indicators fell 0.3 percent during November, after dropping 1.6 percent in October. Industrial production slipped 2.1 percent during November. At this point, analysts generally don't look for a rebound until mid-1982. What does this mean for soybeans and products?

If the recession deepens, demand for nondurable products, like meat, will weaken. This in turn would depress livestock prices and temper some of the gain in feeding margins needed to put livestock producers back in the black.

With no encouragement to expand, livestock and poultry producers will probably hold animal numbers near or slightly below year-earlier levels. However, sharply lower prices for soybean meal will stimulate some substitution in meal's favor, but primarily increase feeding rates. So, lower meal prices are likely to offset recessionary pressures on the livestock sector and boost domestic soybean meal use--perhaps by 4 percent.

As for soybean oil, the chart on p. 3 bears out that demand usually slows in pace with recession. But because of large supplies, soybean oil is now priced very competitively with other oils, so domestic use may rise--possibly about 4 percent to 9.450 billion pounds.

Keys to Prices

In four of the five recessions after 1960, commodity prices dipped as the slowdown started. However, in each instance, prices began to recover around the midpoint of the recession. If the pattern holds true this time around, soybean prices would strengthen during the first half of 1982. However, these factors also will be important:

- Seasonality. Except when crops are short, as in 1980, soybean prices tend to rise as the season progresses. During the last decade, prices generally averaged 10 to 15 percent higher in the last quarter of the marketing year than in the first.

- Livestock and corn prices. Prices for soybeans could strengthen in the near term if an early rebound from recession boosts livestock prices or heavy reserve placements push up corn prices.

- Acreage. On February 18, USDA will release farmers' planting intentions for 1982 crops. Prices could strengthen if farmers indicate plans to seed fewer acres to soybeans.

- Government policy. The recently passed farm bill could affect soybean prices indirectly by influencing 1982 planting decisions. If programs for grains and cotton appear favorable at planting time, farmers may hold more acres in grains and cotton than they would on the basis of market prices alone.

Planning for 1982 Crops

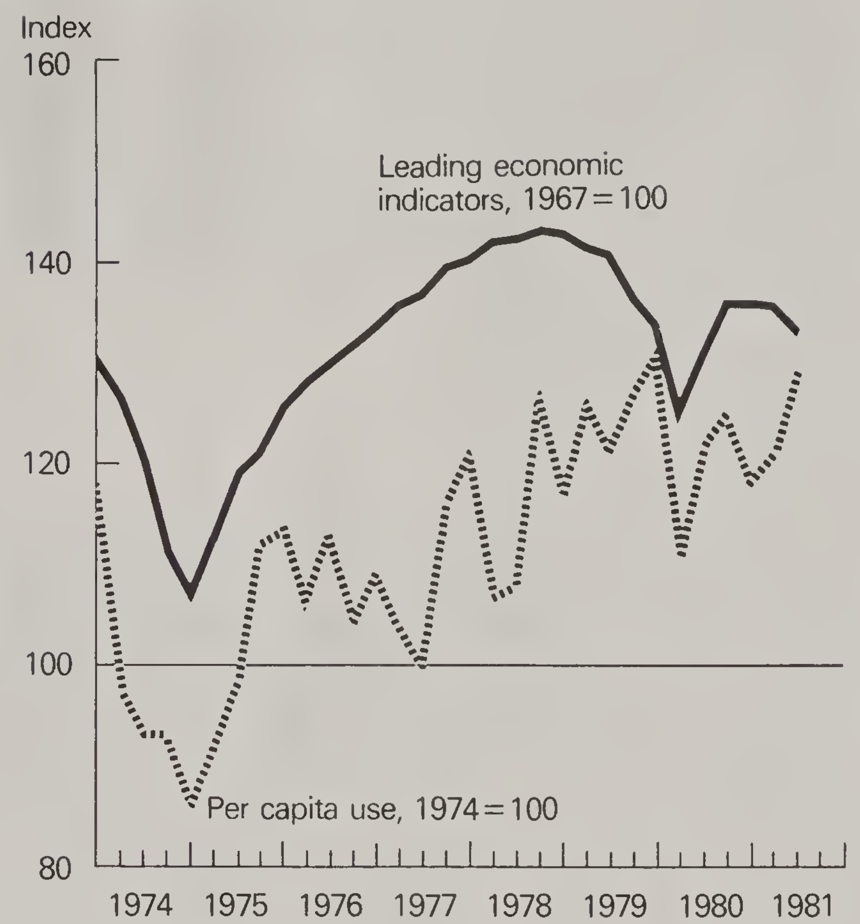
Crop alternatives for 1982 are probably much on your mind as the new year gets underway. If you also grow feed grains or cotton, the new farm legislation, covering the 1982-85 crops, may figure in your plans. Here are some highlights from the new act:

- Soybeans-- Loan rates for the 1982-85 crops will be set at 75 percent of the 5-year national average farm price, with a minimum of $5.02 a bushel. This year, the loan price will almost certainly be $5.02, unchanged from 1981.

- Corn-- The corn target price for 1982 will not be less than $2.70 a bushel, compared with $2.40 in 1981. The regular loan rate will be at least $2.55 in 1982, up from $2.40. For the 1983-85 crops, target prices will be at least $2.86, $3.03, and $3.18, respectively, and the loan rate will be no less than $2.55 a bushel.

- Grain reserves-- The Secretary of Agriculture is required to continue the farmer-owned reserve program for wheat and feed grains.

SOYBEAN OIL USE PARALLELS OVERALL ECONOMIC ACTIVITY



The new 4-year farm bill also gives the Secretary a lot more say over the program's operation. Watch for developments, because the farmer-owned reserve provides a valuable marketing option and a degree of economic security for grain crops. For example, farmers entering 1981-crop corn into the reserve receive a loan rate 15 cents a bushel above the regular loan and an advance annual storage payment of 26.5 cents a bushel.

An attractive reserve program may support grain prices and indirectly improve the price situation for soybeans.

- Cotton-- The current program remains intact through the 1985 crop with loan rates based on a percentage of market prices and a minimum loan of 55 cents a pound. The indicated loan rate for 1982/83 is around 57 cents a pound, up from about 52.5 cents the previous season.

Target prices will be the higher of a) 120 percent of the loan rate, or b) 71 cents a pound in 1982, then a minimum

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of 76, 81, and 86 cents, respectively, for 1983-85. The cotton target price is compared to a weighted calendar year farm price to determine if deficiency payments will be made.

So, look at national average farm prices for cotton in early 1982. If they're running below the target (about 71 cents), the chances of receiving a deficiency payment on 1982-crop cotton increase. Again this may indirectly support soybean prices if it influences farmers to keep more acres in cotton than they would otherwise.

- Set-aside and acreage limitation programs-- The intention to have a wheat set-aside has already been announced; watch to see what happens on grains and cotton.

Buying Inputs: Check Changes in the Tax Law

As you decide which crops to plant in 1982, you must also determine how much to spend on variable and fixed inputs. Your choice of a crop and its variety will largely affect your management decision on inputs such as seed, pesticides, and fertilizer.

But what about the bigger-ticket items? With this year's low prices, and so-so prospects for next season, it may be tempting to put off buying durable equipment like combines, tractors, or trucks. Before deciding whether to buy, take a look at the provisions of the Economic Recovery Tax Act of 1981.

The act provides a major change in the way assets are depreciated. The new Accelerated Cost Recovery System (ACRS) allows the cost of the asset to be written off faster than the useful life of the asset. Most assets can be depreciated over 3 or 5 years, although some buildings require 15. Moreover, the investment tax credit still applies and has been raised to 6 percent for assets in the 3-year category and 10 percent for other assets.

If you think the new tax law can make a difference for you, check with your accountant or other specialist on depreciation and investment credits on personal property.
